

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2011**



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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Joseph A. Grieshop, Harlan County Judge/Executive

Members of the Harlan County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated Harlan County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", written over a horizontal line.

Adam H. Edelen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY FISCAL COURT

June 30, 2011

Ross and Co., PLLC has completed the audit of the Harlan County Fiscal Court for fiscal year ended June 30, 2011.

We have issued unqualified opinions on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$26,622,589 in its governmental activities as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,624,435 in its governmental activities as of June 30, 2011. The business-type activities had net cash and cash equivalents of \$158,485. The fiscal court had total debt principal as of June 30, 2011 of \$22,187,262 with \$383,178 due within the next year.

Report Comments:

- 2011-01 The County Has A Lack Of Adequate Segregation Of Duties
- 2011-02 The County Should Strengthen Internal Controls Over Waste Removal Collections
- 2011-03 The Treasurer Should Ensure Ledgers Are Accurate
- 2011-04 The Jailer's Office Lacks Adequate Segregation Of Duties
- 2011-05 The County Should Improve Purchase Order Procedures
- 2011-06 The Jailer Should Reconcile Receipts And Disbursement Monthly
- 2011-07 The Airport Board Lacks Adequate Segregation Of Duties
- 2011-08 Invoices Of The Airport Board Lack Evidence Of Proper Approval
- 2011-09 Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

Deposits:

The primary government and its component unit's deposits were fully insured and collateralized by bank securities.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

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Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Harlan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Harlan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky as of June 30, 2011, or the changes in financial position, thereof, for the year then ended, in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

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Members of the Harlan County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harlan County, Kentucky's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2012 on our consideration of Harlan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The County Has A Lack Of Adequate Segregation Of Duties
- 2011-02 The County Should Strengthen Internal Controls Over Waste Removal Collections
- 2011-03 The Treasurer Should Ensure Ledgers Are Accurate
- 2011-04 The Jailer's Office Lacks Adequate Segregation Of Duties
- 2011-05 The County Should Improve Purchase Order Procedures
- 2011-06 The Jailer Should Reconcile Receipts And Disbursement Monthly
- 2011-07 The Airport Board Lacks Adequate Segregation Of Duties
- 2011-08 Invoices Of The Airport Board Lack Evidence Of Proper Approval
- 2011-09 Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

Respectfully submitted,



Ross and Co., PLLC

February 8, 2012

HARLAN COUNTY OFFICIALS

For The Year Ended June 30, 2011

Fiscal Court Members:

Joseph A. Grieshop	County Judge/Executive
Jonathon Pope	Magistrate
Bill Moore	Magistrate
David Kennedy	Magistrate
Jim Roddy	Magistrate

Other Elected Officials:

Fred Busroe	County Attorney
Curtis Stallard	Jailer
Donna Hoskins	County Clerk
Paul Williams	Circuit Court Clerk
Marvin Lipfird	Sheriff
Felicia Wooten	Property Valuation Administrator
Philip Bianchi	Coroner

Appointed Personnel:

Ryan Creech	County Treasurer
Genese Brewer	Finance Officer
Alice Hensley	Accounts Payable
Margie Shope	Accounts Payable
Ollie McGregor	Payroll Clerk

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HARLAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

HARLAN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Tucker Guthrie Airport Board
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 16,562,140	\$ 158,485	\$ 16,720,625	\$ 26,000
Total Current Assets	16,562,140	158,485	16,720,625	26,000
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	2,007,234		2,007,234	458,524
Other Land Improvements				208,490
Buildings	17,601,102		17,601,102	419,002
Equipment	541,204		541,204	
Vehicles	802,044	50,477	852,521	
Infrastructure	11,296,127		11,296,127	
Total Noncurrent Assets	32,247,711	50,477	32,298,188	1,086,016
Total Assets	48,809,851	208,962	49,018,813	1,112,016
LIABILITIES				
Current Liabilities:				
General Obligation Bonds	185,000		185,000	
Financing Obligations	198,178		198,178	
Total Current Liabilities	383,178		383,178	
Noncurrent Liabilities:				
General Obligation Bonds	7,350,000		7,350,000	
Revenue Bonds	6,865,000		6,865,000	
Financing Obligations	7,589,084		7,589,084	
Total Noncurrent Liabilities	21,804,084		21,804,084	
Total Liabilities	22,187,262		22,187,262	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	10,060,449	50,477	10,110,926	1,086,016
Restricted For:				
Roads	3,658,272		3,658,272	
Protection to Persons and Property	606,480		606,480	
General Health And Sanitation	3,421,164		3,421,164	
Debt Service	4,647,788		4,647,788	
Capital Projects	2,604,001		2,604,001	
Unrestricted	1,624,435	158,485	1,782,920	26,000
Total Net Assets	\$ 26,622,589	\$ 208,962	\$ 26,831,551	\$ 1,112,016

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HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011

HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,149,153	\$ 218,963	\$ 551,269	\$ 225,208
Protection to Persons and Property	3,212,754	1,553,392	1,283,512	
General Health and Sanitation	7,295,130	1,244,576	23,512	137,432
Social Services	422,689			
Recreation and Culture	813,275			
Roads	2,218,615		7,812,593	1,315,698
Airports	15,279			
Interest On Long Term Debt	1,060,489			
Capital Projects	239,632			
Total Governmental Activities	20,427,016	3,016,931	9,670,886	1,678,338
Business-type Activities:				
Jail Canteen	743,380	696,704		
Total Business-type Activities	743,380	696,704		
Total Primary Government	\$ 21,170,396	\$ 3,713,635	\$ 9,670,886	\$ 1,678,338
Component Units:				
Tucker Guthrie Aiport Board	\$ 103,288	\$ 75,820	\$	\$ 44,678
Total Component Units	\$ 103,288	\$ 75,820	\$ 0	\$ 44,678

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Interest

Total General Revenues

Change in Net Assets

Net Assets - Beginning (restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Tucker Guthrie Airport Board
\$ (4,153,713)	\$	\$ (4,153,713)	\$
(375,850)		(375,850)	
(5,889,610)		(5,889,610)	
(422,689)		(422,689)	
(813,275)		(813,275)	
6,909,676		6,909,676	
(15,279)		(15,279)	
(1,060,489)		(1,060,489)	
(239,632)		(239,632)	
(6,060,861)		(6,060,861)	
	(46,676)	(46,676)	
	(46,676)	(46,676)	
(6,060,861)	(46,676)	(6,107,537)	
			17,210
			17,210
1,788,543		1,788,543	
831,349		831,349	
252,483		252,483	
1,384,584		1,384,584	
75,268		75,268	
513,031		513,031	
114,368	187	114,555	
4,959,626	187	4,959,813	
(1,101,235)	(46,489)	(1,147,724)	17,210
27,723,824	255,451	27,979,275	1,094,806
\$ 26,622,589	\$ 208,962	\$ 26,831,551	\$ 1,112,016

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
ASSETS				
Cash and Cash Equivalents	\$ 6,227,764	\$ 2,192,059	\$ 12,624	\$ 4,887,377
Total Assets	<u>6,227,764</u>	<u>2,192,059</u>	<u>12,624</u>	<u>4,887,377</u>
FUND BALANCES				
Restricted For:				
Roads		2,192,059		1,466,213
Protection to Persons and Property			12,624	
General Health And Sanitation				3,421,164
Debt Service	4,603,329			
Capital Projects				
Unassigned	<u>1,624,435</u>			
Total Fund Balances	<u>\$ 6,227,764</u>	<u>\$ 2,192,059</u>	<u>\$ 12,624</u>	<u>\$ 4,887,377</u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****June 30, 2011****(Continued)**

Local Government Economic Development Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$ 2,545,846	\$ 5,581	\$ 690,889	\$ 16,562,140
<u>2,545,846</u>	<u>5,581</u>	<u>690,889</u>	<u>16,562,140</u>
			3,658,272
		593,856	606,480
			3,421,164
	5,581	38,878	4,647,788
2,545,846		58,155	2,604,001
			<u>1,624,435</u>
<u>\$ 2,545,846</u>	<u>\$ 5,581</u>	<u>\$ 690,889</u>	<u>\$ 16,562,140</u>

Reconciliation Of The Balance Sheet - Governmental Funds To The Statement Of Net Assets:

Total Fund Balances	\$ 16,562,140
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	72,268,133
Accumulated Depreciation	(40,020,422)
Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds	
Revenue Bonds	(6,865,000)
Financing Obligations	(7,787,262)
General Obligation Bonds	<u>(7,535,000)</u>
Net Assets Of Governmental Activities	<u>\$ 26,622,589</u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund
REVENUES				
Taxes	\$ 4,019,380	\$	\$	\$
In Lieu Tax Payments		2,380		
Excess Fees	75,268			
Licenses and Permits	218,963			
Intergovernmental	1,392,412	1,680,558	1,332,263	3,655,311
Charges for Services	1,244,576		40,772	
Miscellaneous	306,532	14,870	191,629	
Interest	90,826	7,007		10,904
Total Revenues	<u>7,347,957</u>	<u>1,704,815</u>	<u>1,564,664</u>	<u>3,666,215</u>
EXPENDITURES				
General Government	2,904,947			69,994
Protection to Persons and Property	307,258		1,958,081	36,793
General Health and Sanitation	4,972,806			489,264
Social Services	467,196			
Recreation and Culture	130,103			436,872
Roads		1,914,689		
Airports	15,279			
Debt Service	400,490			
Capital Projects	148,657			
Administration	1,397,588	244,374	474,298	123,853
Total Expenditures	<u>10,744,324</u>	<u>2,159,063</u>	<u>2,432,379</u>	<u>1,156,776</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(3,396,367)</u>	<u>(454,248)</u>	<u>(867,715)</u>	<u>2,509,439</u>
Other Financing Sources (Uses)				
Refunding Bond Proceeds				
Payment To Refunded Bond Escrow Agent				
Transfers From Other Funds		972,781	880,339	
Transfers To Other Funds	(669,316)			(1,183,804)
Total Other Financing Sources (Uses)	<u>(669,316)</u>	<u>972,781</u>	<u>880,339</u>	<u>(1,183,804)</u>
Net Change in Fund Balances	(4,065,683)	518,533	12,624	1,325,635
Fund Balances - Beginning	10,293,447	1,673,526		3,561,742
Fund Balances - Ending	<u>\$ 6,227,764</u>	<u>\$ 2,192,059</u>	<u>\$ 12,624</u>	<u>\$ 4,887,377</u>

The accompanying notes are an integral part of the financial statements.

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2011
(Continued)

Local Government Economic Development Fund	Justice Center Public Properties Corporation Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 182,411	\$ 4,201,791
			2,380
			75,268
			218,963
3,792,422	668,102	393,564	12,914,632
			1,285,348
			513,031
		5,631	114,368
<u>3,792,422</u>	<u>668,102</u>	<u>581,606</u>	<u>19,325,781</u>
22,258			2,997,199
85,587		357,836	2,745,555
1,599,679		225,208	7,286,957
111,831			579,027
213,290			780,265
119,970			2,034,659
			15,279
	895,922	562,436	1,858,848
90,975			239,632
	1,000		2,241,113
<u>2,243,590</u>	<u>896,922</u>	<u>1,145,480</u>	<u>20,778,534</u>
<u>1,548,832</u>	<u>(228,820)</u>	<u>(563,874)</u>	<u>(1,452,753)</u>
	6,865,000		6,865,000
	(6,637,180)		(6,637,180)
			1,853,120
			(1,853,120)
	<u>227,820</u>		<u>227,820</u>
1,548,832	(1,000)	(563,874)	(1,224,933)
997,014	6,581	1,254,763	17,787,073
<u>\$ 2,545,846</u>	<u>\$ 5,581</u>	<u>\$ 690,889</u>	<u>\$ 16,562,140</u>

The accompanying notes are an integral part of the financial statements.

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**HARLAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

HARLAN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (1,224,933)

Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense.

Capital Outlay	1,191,741
Depreciation Expense	(1,136,697)
Asset Disposal, Net Value	(5,251)

Changes in Receivables Can Occur As A Result Of Direct Write Off (Decreases) Or Granting A Receivable To An Entity (Increase). This Amount Represents The Difference. (496,634)

Debt Proceeds Provide a Current Financial Resource to the Governmental Funds. While principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets and have been eliminated from the Statement of Activities.

Refunding Bond Proceeds	(6,865,000)
General Obligation Bond Principal Payments	175,000
Revenue Bond Principal Payments	7,045,000
Financing Obligations Principal Payments	<u>215,539</u>

Change in Net Assets of Governmental Activities \$ (1,101,235)

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HARLAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

HARLAN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2011

	Business-Type Activities - Enterprise Funds
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 158,485
Total Current Assets	<u>158,485</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	85,074
Less Accumulated Depreciation	<u>(34,597)</u>
Total Noncurrent Assets	<u>50,477</u>
Total Assets	<u>208,962</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	50,477
Unrestricted	158,485
Total Net Assets	<u><u>\$ 208,962</u></u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

HARLAN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 275,523
Total Operating Revenues	<u>275,523</u>
Operating Expenses	
Cost of Sales	138,671
Depreciation	7,657
Education & Recreation	112,093
Miscellaneous	476
Total operating expenses	<u>258,897</u>
Operating Income (Loss)	<u>16,626</u>
Nonoperating Revenues (Expenses)	
Interest Income	187
Inmate Deposits	421,181
Inmate Fees	(484,483)
Total Nonoperating Revenues (Expenses)	<u>(63,115)</u>
Change In Net Assets	<u>(46,489)</u>
Total Net Assets - Beginning (restated)	<u>255,451</u>
Total Net Assets - Ending	<u><u>\$ 208,962</u></u>

The accompanying notes are an integral part of the financial statements.

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HARLAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

HARLAN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2011

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 275,523
Cash Payments to Vendors	(251,240)
Net Cash Provided (Used) By Operating Activities	<u>24,283</u>
Cash Flows From Noncapital Financing Activities	
Inmate Deposits	421,181
Inmate Fees	(484,483)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(63,302)</u>
Cash Flows From Investing Activities	
Interest Earned	<u>187</u>
Net Cash Provided By Investing Activities	<u>187</u>
Net (Decrease) in Cash and Cash Equivalents	(38,832)
Cash and Cash Equivalents - July 1, 2010 (Restated)	<u>197,317</u>
Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 158,485</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 16,626
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>7,657</u>
Net Cash Provided By Operating Activities	<u><u>\$ 24,283</u></u>

The accompanying notes are an integral part of the financial statements

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HARLAN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

HARLAN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	<u>Agency Funds</u>
	<u>Total</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	<u>\$ 294,416</u>
Total Assets	<u><u>294,416</u></u>
Liabilities	
Amounts Held In Custody For Others	<u>294,416</u>
Total Liabilities	<u><u>294,416</u></u>
Net Assets	
Total Net Assets	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The reporting entity presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Harlan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Harlan County Justice Center Public Properties Corporation

Harlan County Justice Center Public Properties Corporation is a legally separate entity established to provide for the debt service associated with the construction of the Judicial Center Building. Harlan County Justice Center Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Harlan County Justice Center Public Properties Corporation as a component unit, and its financial activity is blended with that of the fiscal court.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as “Component Unit” to emphasize these organizations’ separateness from the fiscal court’s primary government.

Tucker Guthrie Airport Board

The Harlan County Fiscal Court established the Tucker Guthrie Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court’s objective is that having an airport within the county will promote industrial development to the county. Therefore, management must include the board as a component unit, and the board’s financial activity will be discretely presented with that of the Fiscal Court.

The Tucker Guthrie Airport Board, a discretely presented component unit, may be contacted by writing or calling the Harlan County Airport Board (606-573-7499) at P.O. Box 957, Harlan, Kentucky 40831.

Harlan County Industrial Development Authority

Harlan County Fiscal Court (Fiscal Court) established the Harlan County Industrial Development Authority (IDA) to promote industrial growth in Harlan County. Harlan County Fiscal Court has the authority to appoint a voting majority of the Authority’s board. The Authority is fiscally dependent on the Fiscal Court because the Fiscal Court has assumed debt owed by the Authority and is making the payments upon the debt. This fiscal dependency requires the Fiscal Court to include the Authority as a component unit. The Industrial Development Authority was administratively dissolved in November, 2010 with the county absorbing assets and assuming liabilities.

C. Harlan County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Harlan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Harlan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale 90 days following April 15th.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government (DLG) requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary source of this fund is coal and severance tax grants from the state. These funds are to be spent on priority expenditure categories as specified by statute. DLG requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development (LGED) Fund - The primary source of this fund through development grant money in which the expenditures are legally restricted for specific purposes.

Justice Center Public Properties Corporation fund - This fund accounts for the debt service requirements of the Justice Center bond issues.

The primary government also has the following non-major funds: Federal Grants Fund, Sinking Fund, and the 911 Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grants Fund, Local Government Economic Development Fund, and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Funds:

Sinking Fund and Harlan County Justice Center Public Properties Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Agency Funds

The Louellen Escrow Fund, Cloverfork Escrow Fund, and the Flood Control Fund are funds held by the Harlan County Fiscal Court for the Army Corps of Engineers for flood projects located in Harlan County. Jail Inmate Account Fund accounts for inmate monies held by the Jailer for custodial purposes only.

E. Deposits and Investments

The primary government and its component unit's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 30,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the treasurer to carry out the intent of the fiscal court.

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

A formal budget was not adopted for the Harlan County Justice Center Public Properties Corporation Fund, a blended component unit. This corporation accounts for the debt associated with financing the construction of the Judicial Center and Detention Center. The State Local Finance Officer does not require the fiscal court budget these funds.

A formal budget was not adopted for the Tucker Guthrie Airport Board because this entity is a component unit of the fiscal court and the financial activity is not required to be included in the budget or financial statements of the primary government. The fiscal court established this entity as a component unit, which is operated independently of the Harlan County Fiscal Court. This entity is included as discretely presented component unit on the county's financial statements.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

J. Related Organizations, Joint Ventures, and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Harlan County Fiscal Court: Harlan County Public Library, Green Hills Water District, Black Mountain Water District, Harlan Municipal Water District, Cawood Water District, City of Evarts Water District, City of Cumberland Water District, City of Benham Water District, Harlan County Health Department, and Harlan County Extension District.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Harlan County Fiscal Court and the City of Harlan: Planning and Zoning Commission.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The primary government and its component units do not have a deposit policy for custodial credit risk but rather follow the requirements of KRS 41.240(4). As of June 30, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 3. Receivable Direct Write Off

On May 2, 2005, Harlan County Fiscal Court agreed to make payments on a business building on behalf of the Industrial Development Authority. Originally, there was no signed agreement between the two entities. On May 22, 2011, the Industrial Development Authority signed an agreement retroactive back to May 2, 2005. The agreement documents the original intent of the relationship between the Harlan County Fiscal Court and the Industrial Development Authority. The Industrial Development Authority agreed to reimburse the Harlan County Fiscal Court for any payments made on their behalf including both principal and interest. The Industrial Development Authority was administratively dissolved during the audit period and the receivable has been written off by the county. The total amount written off was \$496,634 which represents the principal and interest paid by the county and the \$100,000 note created when the Industrial Development Authority was formed.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 2,007,234	\$	\$	\$ 2,007,234
Total Capital Assets Not Being Depreciated	2,007,234			2,007,234
Capital Assets, Being Depreciated:				
Buildings	20,546,697	160,000		20,706,697
Equipment	815,336	162,870		978,206
Vehicles	2,217,355	258,005	(52,507)	2,422,853
Infrastructure	45,542,277	610,866		46,153,143
Total Capital Assets Being Depreciated	69,121,665	1,191,741	(52,507)	70,260,899
Less Accumulated Depreciation For:				
Buildings	(2,723,998)	(381,597)		(3,105,595)
Other Equipment	(351,770)	(85,232)		(437,002)
Vehicles and Equipment	(1,497,774)	(170,291)	47,256	(1,620,809)
Infrastructure	(34,357,439)	(499,577)		(34,857,016)
Total Accumulated Depreciation	(38,930,981)	(1,136,697)	47,256	(40,020,422)
Total Capital Assets, Being Depreciated, Net	30,190,684	55,044	(5,251)	30,240,477
Governmental Activities Capital Assets, Net	<u>\$ 32,197,918</u>	<u>\$ 55,044</u>	<u>\$ (5,251)</u>	<u>\$ 32,247,711</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 44,116	\$	\$	\$ 44,116
Equipment	40,958			40,958
Total Capital Assets Being Depreciated	85,074			85,074
Less Accumulated Depreciation For:				
Equipment	(15,881)	(3,970)		(19,851)
Vehicles	(11,059)	(3,687)		(14,746)
Total Accumulated Depreciation	(26,940)	(7,657)		(34,597)
Total Capital Assets, Being Depreciated, Net	58,134	(7,657)		50,477
Business-Type Activities Capital Assets, Net	\$ 58,134	\$ (7,657)	\$	\$ 50,477

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 277,151
Protection to Persons and Property	229,788
General Health & Sanitation	8,173
Social Services	3,662
Recreation	33,010
Roads, Including Depreciation of General Infrastructure Assets	<u>584,913</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,136,697</u>

Business-Type Activities

Jail Canteen	<u>\$ 7,657</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 7,657</u>

Capital asset activity for the discretely presented component unit for the year ended June 30, 2011 was as follows:

	Tucker Guthrie Airport Board			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 458,524		\$	\$ 458,524
Total Capital Assets Not Being Depreciated	<u>458,524</u>			<u>458,524</u>
Capital Assets, Being Depreciated:				
Buildings (restated)	430,390	41,955		472,345
Other Land Improvements	<u>243,562</u>			<u>243,562</u>
Total Capital Assets Being Depreciated	673,952	41,955		715,907
Less Accumulated Depreciation For:				
Buildings	(37,503)	(15,840)		(53,343)
Other Land Improvements	<u>(26,304)</u>	<u>(8,768)</u>		<u>(35,072)</u>
Total Accumulated Depreciation	<u>(63,807)</u>	<u>(24,608)</u>		<u>(88,415)</u>
Total Capital Assets, Being Depreciated, Net	<u>610,145</u>	<u>17,347</u>		<u>627,492</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,068,669</u>	<u>\$ 17,347</u>	<u>\$ 0</u>	<u>\$ 1,086,016</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 4. Capital Assets (Continued)

Depreciation expense was charged to functions of the discretely presented major component unit as follows:

Tucker Guthrie Airport Board	\$ 24,608
Total Depreciation Expense - Governmental Activities	<u>\$ 24,608</u>

Note 5. Long-term Debt

A. General Obligation Improvement Bonds Series 2004

On September 8, 2004, the county issued \$6,000,000 of General Obligation Bonds. These bonds were issued for the purpose of financing the acquisition, construction, and equipping of a new detention center facility. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning March 1, 2006. Principal payments are due March 1 of each year until September 1, 2034. As of June 30, 2011, the principal amount outstanding was \$5,395,000.

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 135,000	\$ 237,495
2013	140,000	232,682
2014	145,000	227,695
2015	150,000	222,383
2016	155,000	216,702
2017-2021	860,000	986,109
2022-2026	1,080,000	780,193
2027-2031	1,355,000	498,670
2032-2035	<u>1,375,000</u>	<u>135,960</u>
Totals	<u>\$ 5,395,000</u>	<u>\$ 3,537,889</u>

B. General Obligation Improvement Bonds Phase II

On April 27, 2005, the Harlan County Detention Center Public Properties Corporation and the county issued bonds in the amount of \$2,350,000 in order to finish constructing the Harlan County Detention Center. The bonds require two semiannual interest payments be made on March 1 and September 1 of each year beginning September 1, 2006. Principal payments are due on March 1 of each year until September 1, 2035. As of June 30, 2011 the principal amount outstanding was \$2,140,000.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

B. General Obligation Improvement Bonds Phase II (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 50,000	\$ 95,043
2013	50,000	93,293
2014	50,000	91,468
2015	55,000	89,472
2016	55,000	87,383
2017-2021	325,000	400,039
2022-2026	410,000	321,233
2027-2031	505,000	218,614
2032-2036	640,000	83,250
Totals	<u>\$ 2,140,000</u>	<u>\$ 1,479,795</u>

C. First Mortgage Revenue Refunding Bonds Series 2010

On November 23, 2010 Harlan County fiscal court issued revenue bonds for the purpose of advanced refunding of the First Mortgage Revenue Bonds Series 2002 associated with the Justice Center Project. Refunding is scheduled for April 1, 2012. The cash flows required to service the old debt to maturity exceeded the cash flows required by the new debt by \$632,843. The present value of the old debt exceeds the present value of the new debt by \$497,061. The amount of the outstanding defeased debt as of June 30, 2011 is \$6,705,000. The amount held in escrow for the advanced refunding as of June 30, 2011 is \$6,637,180. Principal amount of refunding bond is \$6,865,000 and interest varies from 2% to 3.5%. Interest payments are due each March 1 and each September 1 until March 2025. Principal payments are due with the March interest payment beginning in 2013. Debt service requirements for the fiscal years ending June 30, 2012 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012		\$ 205,975
2013	\$ 330,000	205,975
2014	470,000	199,375
2015	475,000	189,975
2016	485,000	180,475
2017-2021	2,645,000	688,150
2022-2025	2,460,000	224,750
Totals	<u>\$ 6,865,000</u>	<u>\$ 1,894,675</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

D. Financing Obligation - Industrial Development Authority Building

On May 2, 2005, the Harlan Fiscal Court entered into an agreement to make payments on behalf of the Industrial Development Authority (IDA). Principal and interest payments on the variable rate bank loan are due monthly until June 7, 2017. The principal balance as June 30, 2011 is \$175,295. Debt service requirements for the fiscal years ending June 30, 2012 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 22,514	\$ 14,494
2013	25,891	11,117
2014	28,006	9,002
2015	30,294	6,714
2016	34,295	2,907
2017	34,295	2,907
Totals	<u>\$ 175,295</u>	<u>\$ 47,141</u>

E. Financing Obligation - Sewer Lines

On September 25, 2007, the Harlan County Fiscal Court entered into a financing agreement in the amount of \$2,860,000 for the construction of sewer lines. Principal payments are due annually on September 20 and interest payments are due semiannually on March 20 and September 20. The obligation is scheduled to be paid off in September 2037. The principal balance as of June 30, 2011, is 2,720,000. Debt service requirements for the fiscal years ending June 30, 2012 and thereafter are as follows:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 50,000	\$ 134,273
2013	55,000	132,040
2014	55,000	129,675
2015	60,000	127,173
2016	60,000	124,533
2017-2021	350,000	577,225
2022-2026	445,000	481,924
2027-2031	565,000	356,380
2032-2036	730,000	190,474
2037-2038	350,000	19,031
Totals	<u>\$ 2,720,000</u>	<u>\$ 2,272,728</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long-term Debt (Continued)

F. Financing Obligation - Sewer And Water Line Extension

On October 26, 2009, the Harlan County Fiscal Court entered into a financing agreement in the amount of \$5,000,000 for the construction of sewer and water lines. Principal and interest payments are due on the 20th day of each month. The obligation is scheduled to be paid off in May 2038. The principal balance as of June 30, 2011, is 4,840,864. Debt service requirements for the fiscal years ending June 30, 2012 and thereafter are as follows:

Fiscal Year Ended June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 100,808	\$ 198,173
2013	105,012	193,875
2014	109,389	189,498
2015	113,948	184,848
2016	118,696	180,274
2017-2021	671,937	799,603
2022-2026	824,123	670,235
2027-2031	1,010,773	483,500
2032-2036	1,239,698	254,582
2037-2038	<u>546,480</u>	<u>26,302</u>
Totals	<u>\$ 4,840,864</u>	<u>\$ 3,180,890</u>

G. Financing Obligation - Sheriff Vehicles

In December 2007, the Harlan County Fiscal Court entered into a 4-year financing obligation with Leasing One Corporation for the purchase of four police cruisers. Principal and interest payments are due annually in December. The remaining principal balance was paid in full during fiscal year ended June 30, 2011.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 5. Long Term Debt (Continued)

H. Financing Obligation - Sheriff Vehicles

On February 24, 2011 the Harlan County Fiscal Court entered into a 4-year financing obligation with Kansas State Bank for the purchase of four police vehicles. Principal and interest payments are due annually in March. The principal balance as of June 30, 2011 is \$51,103. Debt service requirements for the fiscal years ending June 30, 2012 and thereafter are as follows:

Fiscal Year Ended June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 24,856	\$ 2,861
2013	<u>26,247</u>	<u>1,470</u>
Totals	<u>\$ 51,103</u>	<u>\$ 4,331</u>

I. Long-term activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 7,710,000	\$	\$ 175,000	\$ 7,535,000	\$ 185,000
Revenue Bonds	7,045,000	6,865,000	7,045,000	6,865,000	
Financing Obligations	<u>8,002,801</u>		<u>215,539</u>	<u>7,787,262</u>	<u>198,178</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 22,757,801</u>	<u>\$ 6,865,000</u>	<u>\$ 7,435,539</u>	<u>\$ 22,187,262</u>	<u>\$ 383,178</u>

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

The county's contribution for FY 2009 was \$497,702, FY 2010 was \$583,836, and FY 2011 was \$590,707.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2011, Harlan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. The estimate was used to calculate the infrastructure's historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through the current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

Note 9. Landfill Escrow Account

This account was the result of a settlement reached between the State of Kentucky and Harlan County Fiscal Court to cover the costs of cleaning up violations associated with a landfill operated by the county. The money in this account was used for the purposes of cleaning up the landfill. Money was deposited and the State withdrew money as needed. As of June 30, 2011 the landfill is closed and the remaining balance in the account is \$43,028.

Note 10. Prior Period Restatements and Change in Accounting Principles

Component Unit:

The beginning net assets of Tucker-Guthrie Airport Board have been restated. The capital assets buildings has been increased by \$13,688 because a building was omitted in error.

Jail Canteen:

The beginning cash and net assets of the Jail Canteen have been restated. The prior audit reported Inmate Account funds as part of the canteen cash; beginning in fiscal year ended June 30, 2011, a change in accounting principles allows inmate account funds to be reported as a fiduciary fund. Beginning cash for Jail Canteen is therefore reported as prior audit ending balance of \$202,074 less \$4,757 in Inmate Account cash for a total beginning Canteen cash of \$197,317. This restatement reduces beginning net assets by \$4,757 also.

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,646,500	\$ 2,646,500	\$ 4,019,380	\$ 1,372,880
In Lieu Tax Payments	30	30		(30)
Excess Fees	20,000	20,000	75,268	55,268
Licenses and Permits	125,000	125,000	218,963	93,963
Intergovernmental	1,564,600	1,564,600	1,392,412	(172,188)
Charges for Services	1,050,000	1,050,000	1,244,576	194,576
Miscellaneous	255,000	255,000	306,532	51,532
Interest	25,000	25,000	90,826	65,826
Total Revenues	5,686,130	5,686,130	7,347,957	1,661,827
EXPENDITURES				
General Government	2,876,710	2,904,971	2,904,947	24
Protection to Persons and Property	416,600	307,722	307,258	464
General Health and Sanitation	4,501,200	4,974,115	4,972,806	1,309
Social Services	65,500	467,197	467,196	1
Recreation and Culture	500,000	180,356	130,103	50,253
Airports	200,000	15,280	15,279	1
Debt Service	83,000	89,691	400,490	(310,799)
Capital Projects	300,000	148,657	148,657	
Administration	1,542,620	1,397,641	1,397,588	53
Total Expenditures	10,485,630	10,485,630	10,744,324	(258,694)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(4,799,500)	(4,799,500)	(3,396,367)	1,403,133
OTHER FINANCING SOURCES (USES)				
Revenue Bond Proceeds	3,000,000	3,000,000		(3,000,000)
Transfers To Other Funds	(1,501,577)	(1,501,577)	(669,316)	832,261
Total Other Financing Sources (Uses)	1,498,423	1,498,423	(669,316)	(2,167,739)
Net Changes in Fund Balance	(3,301,077)	(3,301,077)	(4,065,683)	(764,606)
Fund Balance - Beginning	3,301,077	3,301,077	10,293,447	6,992,370
Fund Balance - Ending	\$ 0	\$ 0	\$ 6,227,764	\$ 6,227,764

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 1,600	\$ 1,600	\$ 2,380	\$ 780
Intergovernmental	1,555,400	1,555,400	1,680,558	125,158
Miscellaneous			14,870	14,870
Interest	5,000	5,000	7,007	2,007
Total Revenues	<u>1,562,000</u>	<u>1,562,000</u>	<u>1,704,815</u>	<u>142,815</u>
EXPENDITURES				
Roads	1,652,700	1,911,623	1,914,689	(3,066)
Administration	503,300	244,377	244,374	3
Total Expenditures	<u>2,156,000</u>	<u>2,156,000</u>	<u>2,159,063</u>	<u>(3,063)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(594,000)</u>	<u>(594,000)</u>	<u>(454,248)</u>	<u>139,752</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>540,000</u>	<u>540,000</u>	<u>972,781</u>	<u>432,781</u>
Total Other Financing Sources (Uses)	<u>540,000</u>	<u>540,000</u>	<u>972,781</u>	<u>432,781</u>
Net Changes in Fund Balance	(54,000)	(54,000)	518,533	572,533
Fund Balance - Beginning	<u>54,000</u>	<u>54,000</u>	<u>1,673,526</u>	<u>1,619,526</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,192,059</u>	<u>\$ 2,192,059</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 948,000	\$ 948,000	\$ 1,332,263	\$ 384,263
Charges for Services	41,500	41,500	40,772	(728)
Miscellaneous	87,000	87,000	191,629	104,629
Total Revenues	<u>1,076,500</u>	<u>1,076,500</u>	<u>1,564,664</u>	<u>488,164</u>
EXPENDITURES				
Protection to Persons and Property	1,767,477	2,054,066	1,958,081	95,985
Capital Projects	250,000	3,000		3,000
Administration	717,300	677,711	474,298	203,413
Total Expenditures	<u>2,734,777</u>	<u>2,734,777</u>	<u>2,432,379</u>	<u>302,398</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,658,277)</u>	<u>(1,658,277)</u>	<u>(867,715)</u>	<u>790,562</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,658,277</u>	<u>1,658,277</u>	<u>880,339</u>	<u>(777,938)</u>
Total Other Financing Sources (Uses)	<u>1,658,277</u>	<u>1,658,277</u>	<u>880,339</u>	<u>(777,938)</u>
Net Changes in Fund Balance			12,624	12,624
Fund Balance - Beginning				
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,624</u>	<u>\$ 12,624</u>

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

	Local Government Economic Assistance Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,150,000	\$ 2,150,000	\$ 3,655,311	\$ 1,505,311
Interest	20,000	20,000	10,904	(9,096)
Total Revenues	2,170,000	2,170,000	3,666,215	1,496,215
EXPENDITURES				
General Government	30,000	69,995	69,994	1
Protection to Persons and Property	50,000	36,793	36,793	
General Health and Sanitation	370,300	493,366	489,264	4,102
Recreation and Culture	432,000	443,892	436,872	7,020
Administration	285,600	123,854	123,853	1
Total Expenditures	1,167,900	1,167,900	1,156,776	11,124
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	1,002,100	1,002,100	2,509,439	1,507,339
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(1,497,200)	(1,497,200)	(1,183,804)	313,396
Total Other Financing Sources (Uses)	(1,497,200)	(1,497,200)	(1,183,804)	313,396
Net Changes in Fund Balances	(495,100)	(495,100)	1,325,635	1,820,735
Fund Balances - Beginning	495,100	495,100	3,561,742	3,066,642
Fund Balances - Ending	\$ 0	\$ 0	\$ 4,887,377	\$ 4,887,377

HARLAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2011
(Continued)

Local Government Economic Development Fund				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 4,000,000	\$ 4,000,000	\$ 3,792,422	\$ (207,578)
Total Revenues	4,000,000	4,000,000	3,792,422	(207,578)
EXPENDITURES				
General Government		22,400	22,258	142
Protection to Persons and Property	150,000	136,000	85,587	50,413
General Health and Sanitation	3,000,000	2,874,800	1,599,679	1,275,121
Social Services	200,000	141,600	111,831	29,769
Recreation and Culture	165,000	215,000	213,290	1,710
Roads		125,200	119,970	5,230
Capital Projects	500,000	500,000	90,975	409,025
Total Expenditures	4,015,000	4,015,000	2,243,590	1,771,410
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(15,000)	(15,000)	1,548,832	1,563,832
Net Changes in Fund Balances	(15,000)	(15,000)	1,548,832	1,563,832
Fund Balances - Beginning	15,000	15,000	997,014	982,014
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,545,846	\$ 2,545,846

HARLAN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The General Fund expenditure budget has been exceeded because debt service paid for the Sewer And Water Line Financing Obligation was included in General Fund expenditures as an audit adjustment. The Road Fund expenditure budget has been exceeded due to an unexpected increase in the cost of materials.

**HARLAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2011

HARLAN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2011

	Federal Grants Fund	Sinking Fund	911 Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 58,155	\$ 38,878	\$ 593,856	\$ 690,889
Total Assets	<u>58,155</u>	<u>38,878</u>	<u>593,856</u>	<u>690,889</u>
FUND BALANCES				
Restricted For:				
Protection to Persons and Property			593,856	593,856
General Health and Sanitation	58,155			58,155
Debt Service		38,878		38,878
Total Fund Balances	<u>\$ 58,155</u>	<u>\$ 38,878</u>	<u>\$ 593,856</u>	<u>\$ 690,889</u>

The accompanying notes are an integral part of the financial statements

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HARLAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2011

HARLAN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2011

	Federal Grants Fund	Sinking Fund	911 Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$	\$ 182,411	\$ 182,411
Intergovernmental	225,208		168,356	393,564
Interest		5,313	318	5,631
Total Revenues	<u>225,208</u>	<u>5,313</u>	<u>351,085</u>	<u>581,606</u>
EXPENDITURES				
Protection to Persons and Property			357,836	357,836
General Health and Sanitation	225,208			225,208
Debt Service		562,436		562,436
Total Expenditures	<u>225,208</u>	<u>562,436</u>	<u>357,836</u>	<u>1,145,480</u>
Net Change in Fund Balances		(557,123)	(6,751)	(563,874)
Fund Balances - Beginning	58,155	596,001	600,607	1,254,763
Fund Balances - Ending	<u>\$ 58,155</u>	<u>\$ 38,878</u>	<u>\$ 593,856</u>	<u>\$ 690,889</u>

The accompanying notes are an integral part of the financial statements

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HARLAN COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

HARLAN COUNTY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS

June 30, 2011

	Agency Funds				
	Flood Control Fund	Louellen Escrow Fund	Cloverfork Escrow Fund	Jail Inmate Account	Total
Assets					
Current Assets:					
Cash and Cash Equivalents	<u>\$ 33,812</u>	<u>\$ 226,328</u>	<u>\$ 31,008</u>	<u>\$ 3,268</u>	<u>\$ 294,416</u>
Total Assets	<u>33,812</u>	<u>226,328</u>	<u>31,008</u>	<u>3,268</u>	<u>294,416</u>
Liabilities					
Amounts Held In Custody For Others	<u>33,812</u>	<u>226,328</u>	<u>31,008</u>	<u>3,268</u>	<u>294,416</u>
Total Liabilities	<u>33,812</u>	<u>226,328</u>	<u>31,008</u>	<u>3,268</u>	<u>294,416</u>
Net Assets					
Total Net Assets	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of the financial statements

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COMPONENT UNIT OF HARLAN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2011

**TUCKER GUTHRIE AIRPORT BOARD
 COMPONENT UNIT OF HARLAN COUNTY
 BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2011

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 26,000</u>
Total Assets	<u><u>26,000</u></u>
 FUND BALANCE	
Unassigned	<u>26,000</u>
Total Fund Balance	<u><u>\$ 26,000</u></u>

Reconciliation to Statement of Net Assets:

Total Fund Balance - Tucker Guthrie Airport Board	\$ 26,000
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	1,174,431
Accumulated Depreciation	<u>(88,415)</u>
Net Assets Of Tucker Guthrie Airport Board	<u><u>\$ 1,112,016</u></u>

The accompanying notes are an integral part of the financial statements

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**COMPONENT UNIT OF HARLAN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2011

**TUCKER GUTHRIE AIRPORT BOARD
 COMPONENT UNIT OF HARLAN COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2011

	General Fund
REVENUES	
Intergovernmental Revenues	\$ 44,678
Charges For Services	75,820
Total Revenues	<u>120,498</u>
EXPENDITURES	
Airports	<u>120,635</u>
Total Expenditures	<u>120,635</u>
Excess of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(137)</u>
Net Change in Fund	(137)
Fund Balances - Beginning	<u>26,137</u>
Fund Balances - Ending	<u><u>\$ 26,000</u></u>

Reconciliation to the Statement of Activities:

Net Change in Fund Balance - Tucker Guthrie Airport Board \$ (137)

Governmental Fund report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	41,955
Depreciation Expense	<u>(24,608)</u>

Change In Net Assets Of Tucker Guthrie Airport Board	<u><u>\$ 17,210</u></u>
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
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The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Members of the Harlan County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Harlan County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated February 8, 2012. Harlan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Harlan County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Harlan County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harlan County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harlan County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-01, 2011-02, 2011-03, and 2011-04 to be material weaknesses.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-05, 2011-06, 2011-07, and 2011-08 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harlan County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-09.

Management's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written in dark ink.

Ross and Co., PLLC

February 8, 2012

**HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2011

**HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES

2011-01 The County Has A Lack Of Adequate Segregation Of Duties

During our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. The Treasurer receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, inaccurate financial reporting, and errors increases. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the Treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the Treasurer's bank reconciliations for accuracy. The person completing this review should sign or initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should also cancel the purchase orders and invoices to ensure invoices are not paid twice.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.

We recommend the County implement these procedures. This will help segregate the duties of the County Treasurer as well as other employees.

County Judge Executive's Response: The county is diligently working towards having adequate segregation of duties and continues to delegate work in an attempt to meet this goal.

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-02 The County Should Strengthen Internal Controls Over Waste Removal Collections

During our audit, we noted several internal control weaknesses such as inadequate segregation of duties, inaccurate or incomplete financial reports, the absence of monthly reporting, and the inability to obtain a list of delinquent customers from the county's seven water districts. We noted that the county entered into an agreement with the Green Hills Water District, Black Mountain Water District, Harlan Municipal Water District, Cawood Water District, City of Evarts Water District, City of Cumberland Water District, and the City of Benham Water District that stated the county would pay the districts commission for collecting all residential payments for waste removal. We were unable to confirm with surety that all receipts, less commissions, were being returned to fiscal court. We were also unable to obtain a list of delinquent customers. We recommend the county establish a uniform system of recordkeeping for the day-to-day operations of waste removal collections, require detailed monthly reporting of collections and delinquents, and seek additional training and technical assistance for the staff involved in these collections. We also recommend the county regularly forward a detailed list of delinquent customers to the County Attorney for immediate action.

County Judge Executive's Response: The County is working towards obtaining a unified system for garbage collections that will allow the fiscal court to view in real time the outstanding receivables for waste removal collections.

2011-03 The Treasurer Should Ensure Ledgers Are Accurate

A daily, chronological listing of all receipts and disbursements are required by the County Budget Preparation and State Local Finance Officer Policy Manual and KRS 68.210. The receipts ledger should indicate the date money is received, a description of the revenue source, the revenue account code, the total amount, and the fund(s) to which the amount is distributed. The disbursements ledger must also indicate the date, the check number, the payee, the account code, and the amount of every disbursement. During our audit, we noted the Treasurer did not account for the activity in the sewer acquisition account; therefore, \$66,110 of interest revenue was not posted to the receipts ledger and \$303,967 of principal and interest payments were not posted to the disbursements ledger. Also, we noted five receipts, totaling \$121,743 from the State Treasurer that were omitted from the ledgers. We recommend the County Treasurer ensure all receipts and disbursements be posted to their appropriate ledgers. We further recommend month end reconciliation procedures include a reconciliation of receipts and disbursements per ledgers to receipts and disbursements per bank.

County Judge Executive's Response: The treasurer will be sure to record all revenues and reconcile the ledgers to the bank statements.

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-04 The Jailer's Office Lacks Adequate Segregation Of Duties

The Jailer's office has a lack of adequate segregation of duties. The bookkeeper is required to perform multiple tasks such as daily checkout procedures, daily deposit preparation, the preparation of checks for disbursements, and monthly bank reconciliations. Auditors also noted that all office employees have access to and are posting daily receipts to the ledgers, resulting in multiple posting errors. Good internal controls dictate that one person should not have a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. This is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities and/or prevent inaccurate financial reporting or misappropriation of assets. We recommend the Jailer separate the duties involving processing a transaction from beginning to end. If not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. The individual providing this oversight should initial source documents as evidence of this review.

County Jailer's Response: We are attempting to improve our segregation of duties by implementing more internal controls.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES

2011-05 The County Should Improve Purchase Order Procedures

Per the County Budget Preparation and State Local Finance Officer Policy Manual, the county should maintain a daily, chronological listing of all purchase orders issued. The listing is the book of original entry for all county purchases. The journal should indicate the P.O. number, issue approved by appropriation account code to where the payment will be posted, vendor name, date invoice received, amount of invoice, date claim reviewed by fiscal court, date paid, and amount paid. In addition:

- Purchases shall not be made without approval by the judge/executive (or designee), and/or a department head.
- Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
- Each department head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the judge/executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

During our audit, we noted purchase orders were not issued for all expenditures; purchase orders did not have the proper authorization; the Judge/Executive does not maintain an appropriation ledger that is separate from the treasurer, and as a result does not reconcile monthly with the treasurer as required by Kentucky Revised Statutes and County Budget Preparation and State Local Finance Officer Policy Manual. We recommend the county improve purchase order procedures by complying with the Department of Local Government.

County Judge Executive's Response: The County is attempting to ensure all purchases have prior approval with a purchase order number.

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES (Continued)

2011-06 The Jailer Should Reconcile Receipts And Disbursement Monthly

KRS 68.210 sets forth the minimum requirements for the handling of public funds for all local government officials and employees. This requires bank reconciliations be performed at least monthly. Financial institution bank statements should be reconciled to the respective book balances to ensure bank funds are reflected accurately on the financial records of the Jailer. Auditors noted the bookkeeper was reconciling the bank balances to the ending cash balances monthly, but was not reconciling total receipts and disbursements ledgers. Although ending cash balances agreed, total receipts and total disbursements per the ledgers could not be reconciled to the bank statements. In order to comply with KRS 68.210 and ensure accurate financial statements, we recommend the Jailer reconcile receipts and disbursements ledgers to the receipts and disbursements per the bank statements monthly.

County Jailer's Response: We will reconcile receipts and disbursements monthly.

2011-07 The Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over all accounting functions. Adequate segregation of duties would prevent the same person from having a significant role in the receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. The Treasurer receives the mail, prepares and deposits the receipts, writes checks, and performs the bank reconciliations. When one employee is solely responsible for the receipt, disbursement, reporting and reconciling process, the risk of misappropriation of assets, inaccurate financial reporting, and errors increases.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, preparing checks, preparing reports and reconciling bank accounts. If these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the person responsible for these duties. All compensating controls should be documented by the person performing them.

Airport Board Chairman's Response: Agree.

2011-08 Invoices Of The Airport Board Lack Evidence Of Proper Approval

During our audit, we noted that paid invoices tested for compliance showed no evidence of board approval or authorization to pay. We suggest all expenditures be properly initiated, authorized and approved prior to actual payment. Such approval for payment should be outside of the initiation, authorization and payment process.

Airport Board Chairman's Response: Agree.

HARLAN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2011
(Continued)

STATE LAWS AND REGULATIONS

2011-09 Jailer Should Prepare And Submit An Annual Canteen Report To The Fiscal Court

Pursuant to KRS 441.135(2), the Jailer is to prepare and submit an annual Canteen report to the fiscal court. It was noted that the Jailer does submit monthly reports to Fiscal Court but not a year-end report, which is required per KRS. A sample reporting format from the Kentucky Department of Corrections has been given to your staff and software provider. We recommend that the Jailer submit accurate and properly formatted annual canteen reports to the County Treasurer after fiscal year end.

County Jailer's Response: The jail submits 12 monthly reports and will work with our software company to provide the required annual statement.

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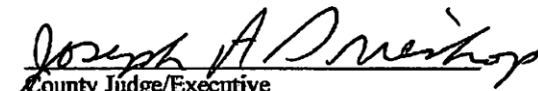
**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

HARLAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2011**

**CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS
HARLAN COUNTY FISCAL COURT
For The Fiscal Year Ended June 30, 2011**

The Harlan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program and Local Government Economic Development Program were expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.


County Judge/Executive


County Treasurer

